HOUSING MARKET OUTLOOK

Toronto CMA

Canada Mortgage and Housing Corporation
www.cmhc.ca

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Strong New Home Market In2006

Condominium Apartment Starts Lead the Way

New home construction activity in the Toronto Census Metropolitan Area (CMA) will dip slightly to 39,900 in 2006, but still remain well above the ten year average of approximately 36,000. This dip can be explained by declining single-detached home construction. Multiple-family starts, including condominium apartments, are forecast to increase this year.

Steady growth in jobs and real wages, coupled with very low borrowing costs over the past two years, has kept the demand for home ownership strong. Consumers have remained confident in their ability to purchase and pay for a home over a long period. Upbeat consumer attitudes toward ownership housing has kept the flow of traffic through new home sales centres very high. According to RealNet and the Greater Toronto Home Builders Association, pre-construction sales remained above 40,000 in 2005.

Condominium apartments have accounted for an increasing share of total new home sales over the past two years. In 2005, a record 17,693 apartments were purchased at developer-owned sales centres. Many of these pre-sales will translate into starts this year. Footings will be laid for a total of 17,500 apartments, including a record number of condominiums. The majority of this new construction will be in the former City of Toronto and surrounding nodes, including Mississauga City Centre and North York.

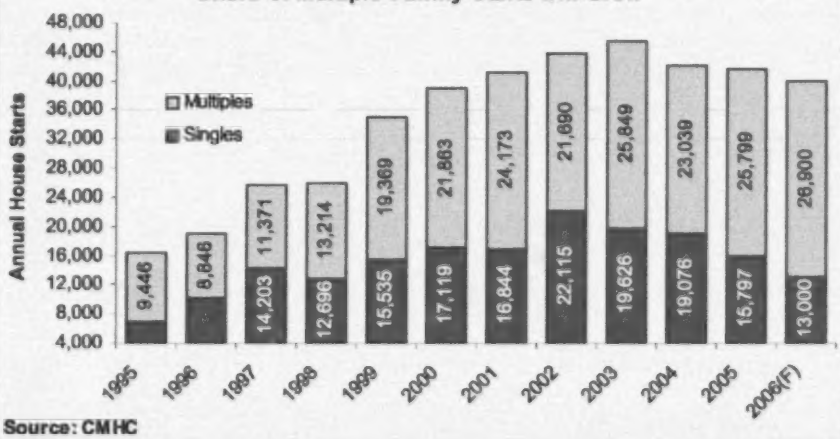
IN THIS ISSUE

1 New Home Market
2 Resale Market
3 Drivers of Housing Demand
3 Mortgage Rate Outlook
4 Outlook Summary Table

High home prices are at the root of increased demand for condominium apartments. Average prices of completed and absorbed single and semi-detached houses have risen at an annual rate well above inflation for the past three years. In response, many buyers have chosen to purchase less-expensive housing types.

While declining, 13,000 single-detached homes are expected to start construction this year. The majority of these homes will be built in the Regions surrounding the City of Toronto, particularly in York and Peel Regions.

Share of Multiple-Family Starts will Grow



Source: CMHC

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Resale Market Strong in 2006

Sales Near Record Levels

Demand for existing homes in the Toronto area will remain at a lofty plateau in 2006, with a total of 84,000 sales - down only two per cent in comparison to the 2005 record of 85,673.

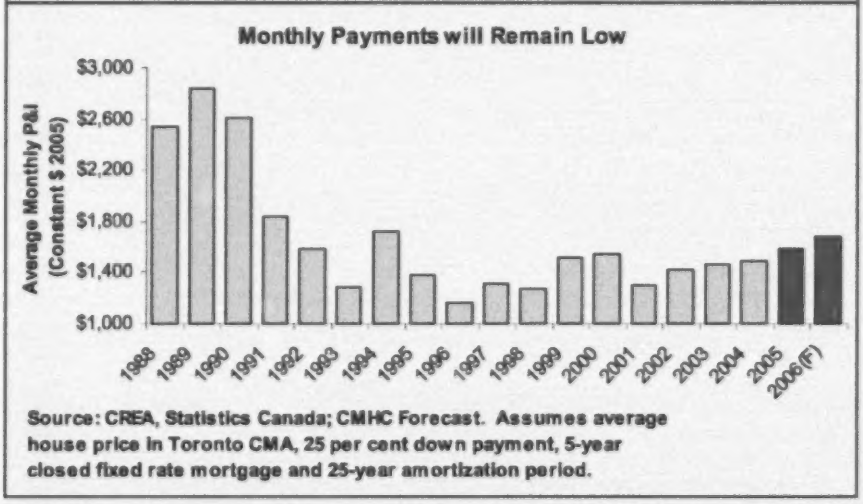
While demand for existing homes remains strong, it should be noted that the growth period in the sales cycle has come to an end. The pent-up demand for ownership housing that built up in the sluggish economic years of the early to mid-1990s has largely been satisfied. Rising average home prices and borrowing costs have been gradually pushing average owners' monthly payments (i.e. principal and interest) higher. This has prompted some households to reconsider the purchase of a home.

More Choice for Buyers

The supply side of the market will not behave in the same fashion as the demand side. Listings of existing homes will continue to rise this year as owners list their homes in order to take occupancy of completed new homes and/or take advantage of strong equity gains.

Plateauing demand and rising supply will cause the sales-to-new listings ratio to decline to 53 per cent, down from 57 per cent in 2005. When the ratio dips below 55 per cent for a sustained period of time, the resale market is classified as being balanced. A balanced market tends to be characterized by price growth closer to the annual rate of inflation.

Source: CREA; CMHC Forecast



Source: CREA, Statistics Canada; CMHC Forecast. Assumes average house price in Toronto CMA, 25 per cent down payment, 5-year closed fixed rate mortgage and 25-year amortization period.

Price Growth will Moderate

While average resale home prices will continue increase in 2006, the rate of growth will decline to 5.9 per cent - down from 6.6 per cent a year ago. The average annual price will amount to $356,000.

Rising home prices will have have a similar effect in the existing home market as in the new home market. Many buyers will continue to turn to less expensive home types, including semi-detached houses, town homes and condominium apartments. Seller's market conditions for these home types will continue to be experienced in many sub-markets within the metropolitan area. Market conditions for condominium apartments will remain especially tight in Central Toronto.

Owners' Monthly Payments to Remain Low

High average home prices and the resulting shift toward less-expensive housing types have raised concerns about the ability of the average household to comfortably purchase and pay for a home in Toronto. When addressing this issue, it is important to consider not only price levels, but also the level of owners' monthly payments in relation to past cycles.

Above-inflation price increases will continue to be largely tempered by very low mortgage rates. Although rates are forecast to rise, the average monthly principal and interest payment, in inflation adjusted terms, will remain low, at approximately 60 per cent of the payment level experienced at the peak of the previous housing price cycle in 1989. Low payment levels will continue to play a key role in sustaining near-record demand for home ownership in 2006.

Economic Overview

Steady Job Growth

The economy will continue to grow in the Toronto area in 2006. Steady job growth and rising real wages will occur across a number of industry sectors.

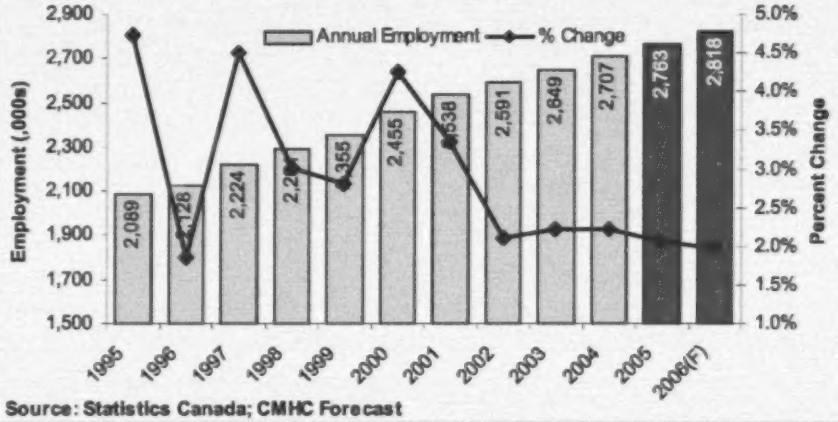
Employment is forecast to grow by two per cent over the next year. While this rate of growth is substantially lower than what was experienced from the mid-1990s through 2001, it is important to note that the labour market in the Toronto area is very tight. The unemployment rate is low from a historic standpoint, which means that the majority of people who want to work currently have a job. When this type of situation exists, job creation can be expected to follow the annual rate of population growth. Over the past decade, Toronto's population has grown by approximately two per cent annually. This growth rate is expected to continue.

Strong domestic demand for goods and services will continue to fuel employment gains in trade, finance, insurance and real estate and accomodation and food. The outlook for the goods producing side of the local economy is not as strong. Slowing residential construction will keep employment in this sector flat. Export-driven manufacturing will also continue to feel the effects of the high Canadian dollar. Manufacturing businesses will spend more on productivity enhancing measures, such as the purchase of machinery and equipment, rather than on new employees.

Immigration Key to Population Growth

In-migration into the Toronto area is driven by immigration. Well-established ethnic networks and a job opportunities across many industry sectors, relative to many other Canadian metropolitan areas, continue to attract international migrants. After dropping sharply in 2003, the number of immigrants choosing to settle in Toronto has started to trend upward once again. Movement of some households to other provinces or other areas within Ontario, however, will dampen the impact of immigration on overall population growth. Expect net migration to increase to 70,000 in 2006 - up from 65,000 forecast for 2005.

Steady employment growth will continue



Source: Statistics Canada; CMHC Forecast

Mortgage Rate Outlook

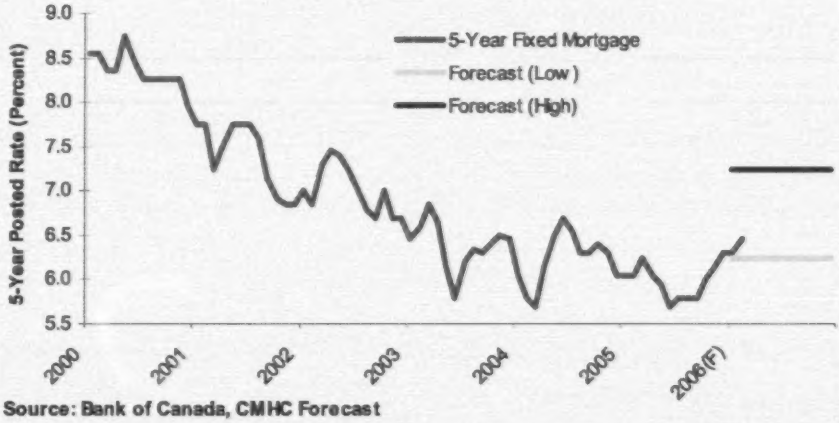
Moderate inflation and a strong Canadian dollar vis-à-vis the U.S. dollar will help restrain the size and speed of Canadian interest and mortgage rate increases in 2006.

While still low by historical norms, mortgage rates are expected to rise gradually by 50-75 basis points in 2006. One, three and five-year mortgage posted rates are forecast to be in the 5.75-6.75, 6.00-6.75, and 6.25-7.25 per cent ranges respectively in 2006.

It should be noted that rising posted mortgage rates will not necessarily lead to higher rates negotiated between borrowers and lenders.

Low mortgage rates will continue to be a positive factor driving demand for ownership housing in the Toronto area over the next year.

Mortgage Rates will Remain Accomodative



Source: Bank of Canada, CMHC Forecast

OUTLOOK SUMMARY
TORONTO CENSUS METROPOLITAN AREA

NEW HOME MARKET	2003	2004	2005	% Change	2006(F)	% Change
Starts						
Single-detached	19,626	19,076	15,797	-17.2%	13,000	-17.7%
Semi-Detached	4,786	3,526	3,375	-4.3%	3,000	-11.1%
Row House	5,749	5,873	6,516	10.9%	6,400	-1.8%
Apartment	15,314	13,640	15,908	16.6%	17,500	10.0%
Total	45,475	42,115	41,596	-1.2%	39,900	-4.1%
RESALE MARKET						
MLS[1] Sales	79,366	84,854	85,672	1.0%	84,000	-2.0%
MLS[1] New Listings	132,819	145,023	151,352	4.4%	159,000	5.1%
Sales-to-Listings Ratio	59.8%	58.5%	56.6%	-	52.8%	-
MLS[1] Average Price	$293,308	$315,266	$336,176	6.6%	$356,000	5.9%
RENTAL MARKET						
Apartment Vacancy Rate	3.8%	4.3%	3.7%	-	3.5%	-
ECONOMIC OVERVIEW						
Mortgage Rate (1 year term)	4.84%	4.59%	5.06%	-	6.27%	-
Mortgage Rate (3 year term)	5.82%	5.65%	5.59%	-	6.43%	-
Mortgage Rate (5 year term)	6.39%	6.23%	5.99%	-	6.78%	-
Employed (000's)	2,648	2,707	2,763	2.1%	2,818	2.0%
Net Migration (Census Year)	63,347	59,673	65,000	8.9%	70,000	7.7%

Sources: CMHC, CREA, Statistics Canada and Bank of Canada.

[1]Multiple Listings Service (MLS) is a registered certification mark own by the Canadian Real Estate association (CREA)

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